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## Why do many consumers prefer to pay now when they could pay later?

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## **WHY DO MANY CONSUMERS PREFER TO PAY-NOW WHEN THEY COULD PAY-LATER?**

Why do consumers use debit cards (DCs) when they could pay with credit cards (CCs) that offer economic benefits such as the use of free-money (for a short period), rewards, and access to credit (Simon, Smith, and West 2010)? Little consumer research (with the primary exception of that by Soman and his colleagues) has focused on the choice of a CC or a DC; these instruments have become the most common (both in terms of usage frequency and dollar volume) types of payments for consumer purchases in the U.S. (NilsonReport 2016). The introduction of DCs in the mid-1960s was met with contempt from consumer economists (ConsumerReports 1994, 2009a, b) as CCs were seen to have far more advantages. DCs' most significant non-purchase benefit was cited as the convenience of accessing cash through 400,000 ATMs in the U.S. (Elliot 2019), and, in a purchase context, the DCs make it more difficult to spend money you do not have (Ganotis 2018).

Economic considerations have guided research regarding consumers' use of payment types (Arango, Huynh, and Sabetti 2011; Bounie and François 2006; Ching and Hayashi 2010; Koulayev et al. 2012; Zinman 2009). DCs seem to be missing several functionalities identified as essential for payment types and typically associated with CCs. Thus one wonders why consumers would decide to purchase with a DC, and when it is their preferred payment type, report experiencing positive emotions making purchases with it (Khan, Belk, and Craig-Lees 2015).

The general consensus from consumer researchers (Chatterjee and Rose 2012; Raghubir and Srivastava 2008; Soman 1999, 2001, 2003; Soman and Cheema 2002; Soman and Gourville 2001; Zinman 2009) is that purchases should be made with CCs rather than DCs *IF* the consumer pays in full at the end of each billing period. If one does not pay one's CC bill in full every month, one probably should use scissors to cut it up (Roth 2017; Zinman 2009). Assuming that the consumer can manage one's finances well and pay the CC bill each period, one should be facing an easy decision to use a CC rather than a DC. But by 2009, DCs were preferred over CCs (ConsumerReports 2009a). Ford (2018) discussed a survey that found over 60% of consumers preferring DCs to CCs as a payment vehicle and Adamczyk (2017) quoted a 2015 study that found nearly 70% of millennials preferring DCs to CCs. It may be that some consumers surveyed cannot qualify for a CC, while obtaining a DC only requires one to open a checking account. On the other hand, many of those preferring to use a DC have both types of cards (Adamczyk 2017) with one estimate pegging those using both card types at 40% of U.S. consumers (Schuh and Stavins 2013a). If so, why would one choose DCs over CCs?

Intangible psychological needs such as individual preferences (e.g., to manage finances and limit overspending) and attitudes beyond economic concerns may guide consumer transactions (Bagozzi 1975). Thus, assessing consumers' psychological determinants for choosing payment types may help progress payment type research and theory. This research focuses on filling this gap in payment type research by qualitatively assessing consumers' subjective assessments for choosing payment types in the context

of DCs and CCs; these contexts have been considered similar on transparency (low) relative to cash (Soman 2003), and both usually take the same form.

Policymakers who run consumer welfare programs may benefit from knowing how payment-types align with the personalities of their beneficiaries. For example, consumers have a likelihood of spending more with DCs as compared to cash (Mercatanti and Li 2014; Runnemark, Hedman, and Xiao 2015), as they do with CCs (Hirschman 1979). More consumers have access to DCs whereas CC issuance is limited to those with good credit ratings. Further, replacement of cash with DCs that are linked to savings accounts may increase formal savings and active use of bank accounts for the poor (Bachas et al. 2017). Bachas et al. (2017) infer that such usage enhances consumers' trust in the financial system, leading to increased consumer welfare. Thus, comprehension of consumer motivations to prefer DCs can help policymakers determine which payment types to advocate. Next, we review the extant research pertaining to DCs and CCs to elaborate further the gaps in current research.

### **LITERATURE REVIEW – DCS AND CCS**

Existing research has identified a crucial difference across payment types: payment transparency – the greater the transparency, the lower the willingness to pay (Soman 2003). Payment transparency is defined as a combined effect of the salience of payment type form, the salience of spending amount, and the outflow of money relative to the decision to spend (Soman 2003). It is pertinent to note that Soman (2003) equated both CCs and DCs on transparency, with both of them being relatively low as compared

to cash. While payment transparency may influence consumers' behavior, it still does not assign a reason for consumers' preferences for a payment type.

Previous purchase and payment experiences may have psychological (besides economic) effects on future payments (Soman and Lam 2002). For example, consumers may prefer payment types that are associated with experiencing lower pain when using one over the other. Pain might result from (a) consumers' exertion of willpower to control spending (Prelec and Loewenstein 1998), (b) tighter coupling between purchase and payments, or (c) lower transparency (Soman 2003). Lower pain when spending with CCs as compared to cash results in greater willingness to spend with CCs (Soman 2003).

CCs and DCs may be preferred for different reasons. Consumers prefer CCs over DCs because of their ease of use and broader acceptance (Sprenger and Stavins 2008; Zinman 2009). DCs are considered better at providing control over money and remaining within budgets (Borzekowski, Kiser, and Ahmed 2008; Statista 2018) and better than cash to track total expenses, the nature of expenses, and the budget left for spending (Hernandez, Jonker, and Kosse 2017). Bradford (2015) suggested that consumers' goals when spending money originate in their moral values (economizing and sustaining) or in their social relationships (treating and rewarding). DCs seem to align themselves more closely with economizing and sustaining, while CCs align with treating and rewarding (Sprenger and Stavins 2008). Money budgeted for thrift or splurging then becomes the conduit for consumers to achieve their goals.

CCs provide status and social premiums more than DCs because of the difference in the procurement processes for the two types of cards. CCs can be said to possess a social premium as consumers need to “qualify” for CCs (Chatterjee et al. 2007; Marron 2007). Availability of credit, therefore, can be seen as a social triumph and can turn consumers agentic, empowering them, and creating optimism about their future (Peñaloza and Barnhart 2011). Research finds that young people use CCs and associated debt availability as a tool to achieve status with their parents after they find their first job (Wang 2006). In comparison, acquiring a DC is a matter of opening a bank account, and may not be seen as socially uplifting.

Consumers may differ in their attitudes related to card types. Consumers with positive CC attitudes feel that a CC is a useful tool: it builds a credit history, is convenient for shopping, is necessary for specific services like car rentals, and provides security over the manufacturers’ guarantee (Kara, Kaynak, and Kucukemiroglu 1996). Those with negative CC attitudes feel that shopping with CCs is an incorrect approach, and may result in financial problems (Kara et al. 1996). Kara et al. (1996) inferred that positive attitudes resulted in increased spending, while negative attitudes reduced consumer spending. In comparison, consumers seem to have consistent attitudes toward DCs, associating them with spending control (Borzekowski et al. 2008; Schuh and Stavins 2013a).

Consumers may prefer payment types as there could be social implications to owning, maintaining, and using payment card types. Consumers may prefer CCs as they

have been identified as lifestyle facilitators (Bernthal, Crockett, and Rose 2005) and represent U.S. consumerism (Cohen 2007; Peñaloza and Barnhart 2011). Consumers' cultural perceptions of debt, CC usage, and the need for status may be a result of a feeling of abundance in the U.S. (Peñaloza and Barnhart 2011). Consumers may have been conditioned to spending with CCs as the mere presence of CC logos as stimuli in an experiment led to higher student spending (Feinberg 1986).

As can be noticed from the research just cited, consumers' social and psychological associations with payment types in addition to economic reasons may result in their uses of CCs versus DCs. This ambiguity may be resolved by studying the empirical phenomenon, i.e., consumer experiences adopting and using payment types. A grounded theory research methodology is applied to interview consumers and analyze the qualitative data collected. This study describes the consumer practices used to choose DCs in comparison to CCs in the context of the consumer-to-business exchange transactions.

Analyzing the data from our depth interviews, we observed a new concept titled "payment-timing." Payment timing helps to explain why consumers select between DCs and CCs that are similar in transparency and form. Payment timing's definition and its justification in this research are discussed next.

### **ARGUMENTS FOR THE RELEVANCE OF PAYMENT-TIMING**

This research conceptualizes payment-timing as a focal attribute of payments that represents consumer flexibility in when to pay relative to the time of purchase.

Consumers “pre-pay” when they use prepaid (or gift) cards, “pay-now” when they use cash, checks, or DCs, and “pay-later” when they use CCs, pay in installments, or take a loan to make purchases.

Payment-timing may influence consumer evaluation of a transaction as good or bad (Loewenstein and Elster 1992; Mowen and Mowen 1991). Consumers are expected to be risk-averse in the present since losses loom larger than gains (Kahneman and Tversky 1979). Thus, postponing payments when paying later may be considered less risky, especially when viewed in combination with the desire for immediate consumption. Consumers may evaluate a transaction based on the higher perceived utility of consumption (higher gains), or based on their optimism about future earnings, and thus undervalue the cost of borrowing (lower losses). Therefore, consumers’ appetites for risk may influence their perceptions of whether the transaction is good or bad, which may affect their selection of payment types.

Challenges to financial well-being include stress that consumers face over time: the anxiety about managing money and the fear of future financial insecurity (Netemeyer et al. 2018). Payment types may be associated with the concern for financial well-being as DCs result in instantaneous reduction in bank balances while using CCs is a promise to pay-later. Netemeyer et al. (2018) found that stress about managing money is positively related to the lack of self-control and the extent of one’s materialism. Expected future financial security is higher when consumers have engaged in positive financial behaviors in the past that resulted in savings, perceptions of financial self-efficacy are high, there is



willingness to take investment risks, and investments and savings in the long-term have been planned.

Consumers' time preference appraisals are often conditioned by other simultaneous considerations such as (a) the consideration of immediate versus future rewards or penalties, (b) the uncertainty associated with delayed rewards or penalties that may curtail their value, and (c) an expectation of inflation leading to an urgency to purchase now and hopefully making repayments less painful. Product characteristics and social identity have been used as stimuli to explain consumers' exchange behaviors since Howard and Sheth's (1969) impactful framework was developed, but payment timing has been ignored. We argue that payment-timing differences may play a role in consumers' decisions to make purchases.

## **RESEARCH METHOD**

There is a need for theory development to enrich our understanding of why consumers choose to pay immediately, despite evidence supporting the benefits of payment delay. Therefore, a grounded theory study was pursued (Birks and Mills 2015; Charmaz 2014; Creswell 2012, 2015) to investigate consumer motivations that drive payment-timing choice. Grounded theory allows an inductive and iterative process of discovery using depth interviews to develop constructivist theory grounded in the data (Charmaz 2014). Grounded theory methodology is applied to explain a process associated with a phenomenon (Birks and Mills 2015), which in this case is the decision to pay-now or pay-later by the consumers. More specifically, in this research grounded theory

methodology has been applied to analyze payment situations experienced by the participants.

The purpose of the grounded theory study was to answer the following research question: What benefits, fears, and motivations influence consumers' preferences of payment-timing for their intended payment goals?

### **Participants**

Data collection involved long open-ended interviews with 25 U.S. consumers between the ages of 23 and 65+ years who were recruited using a purposive sampling technique. The participants were screened for their openness to sharing intimate financial information, and many were recruited through participant references. Since data collection involved the sharing of confidential personal financial information, references helped build trust that resulted in sharing details. A purposeful sample using participant references resulted in the selection of a nearly equal number of males and females and a predominantly white-collar, college-educated Caucasian sample. Table 1 provides participant profiles.

[Insert Table 1 about here]

Fifteen informants specified DCs (pay-now users) and ten CCs (pay-later users) as their primary payment methods, although all informants had possession of both DCs and CCs. Existing research identifies CC users as generally older with higher incomes as compared to cash users (Schuh and Stavins 2013b). The pay-now and pay-later preferring informants in this study, however, had similar demographic profiles. Research has

associated DC use with consumers who have poor credit scores (Zinman 2009), and thus might not qualify for a CC. The sample used in this study was purposely chosen to include those with access to both CCs and DCs so that we could understand the consumer motivations to choose/not choose either payment type.

### **Procedure**

Personal interviews, lasting about 90 minutes each, were conducted face to face or via phone given the sensitive nature of the investigation. All conversations were recorded with the participants' permission. The interviews started with understanding the profile of the participants including card ownership and usage, and then they were asked to narrate their experiences of purchasing and making payments. Informants self-reported which payment type they preferred. It was surprising that all of them had a distinct preference between DCs and CCs. Those who indicated DCs as their preferred payment device have been called pay-now users and those who preferred CCs have been called pay-later users. Preferring a payment type does not exclude them from using another card type. The respondents elaborated their experiences choosing and using different payment types. In the process they touched upon their self-identities and the influence of their socio-cultural milieu. Informants shared their perceived options in each purchase and payment situation, commenting on why they chose a particular payment type. The analysis started by coding text in individual transcripts to identify experiences linked to payment type preferences and the motivations that guided them. Unique themes were compiled, and conceptual categories were refined after every interview. Interviews and analyses continued until

saturation was reached. Themes and categories that emerged from informant narrations are presented next.

## **FINDINGS**

All the informants carried both CC(s) and DC(s), meaning that they had access to credit, as already discussed. None of the informants were constrained to use DCs because they could not get CCs. One informant had her identity stolen a few years back and since then had used DCs, even though her credit rating has since been restored. Some informants (seven out of 15 who identified themselves as preferring DCs) indicated that they had adverse experiences using CCs early in life and as a result had shifted to using DCs.

### **Financial Strategies Direct Preferences for Payment-timing**

The preference for payment-timing aligned with the informant's financial strategies. Paying now may be linked to controlling current expenses while paying later was perceived as helping secure a dependable financial future. Pay-now users felt accomplished and smart as they paid from the money they already had, considered DCs a more suitable replacement for cash than CCs, did not wish to carry the payment forward, did not want to be reminded of the purchases, and felt that they need not spend time reconciling the expenses. For John, paying now meant being able to afford the purchases.

*“When that expense is coming out of the DC, I don't see all that stuff*

*(transactions) aggregated. As long as the balance stays ahead of the expenses and*

*keeps increasing or at least stays the same, and (the expense) is not more than what I bring in, I am perfectly happy to spend.”*

Mary, who prefers to pay-now, finds it difficult to justify her spending on entertainment. She does not want to spend time tracking and reviewing such expenses and preferred not to ponder over them, so she pays now for such expenses.

*“For a DC I feel I can afford it, you pay it and don’t carry it forward, but with a CC it is a reminder at the end of the month. With a CC you have to be more involved, you need to know the balance, you need to check the statement, and so the shots you had a couple of weeks before, come back to you. A CC acts as a reminder of what you spent and maybe some things you should not have spent. With a DC it is out of sight out of mind, the money is gone.”*

Pay-later users felt comfortable using CCs as they planned to achieve their goals. According to pay-later users, CCs help money management by providing easy access to transaction histories, categorizing spending for better budget control, and building a good credit score to help future borrowing. Paying later helped Prem track when and where he made large dollar purchases.

*“When we buy clothing, we always spend on the CC. Because it’s a little easier to track if there’s any reason we have to return that, or there’s any reason we forgot where we bought something from, we can go back in our CC bill and look at, oh, we went to Old Navy to buy a shirt.”*

Emily categorizes and tracks her spending by using multiple CCs.

*“I carry three CCs, one for groceries, one for gas, and one for incidental expenses. At the end of the month, I can cut just one check for each. I go back to my CC statement to reconcile all the receipts.”*

Priya preferred to pay-later to build “a good credit score.” She pays off the CC bill each month and is proud of being debt-free.

*“I’m going to buy a house, a car, and get loans for things. To do those things, I have to have a good credit score. Some of the factors of getting a good credit score are things like using your CC and then paying it off. And so, my CC is often full, because it’s important to me first not to have debt, but secondly also because I wouldn’t develop a good credit score. I don’t want to pay the interest because I have the money, and so I don’t need to use that line of credit.”*

Thus, informants’ desire to be present-oriented (have control of their current expenses) dictated the need for paying now while being future-focused (an objective interpretation of future needs such as a focus on the purchase benefits) determined preference for paying later (Netemeyer et al. 2018). Thus, payment-timing emerged as a measure and indicator of the informants’ financial strategy.

Payment-timing played a decisive role in many purchases for the respondents. For respondents, the decision to use a payment type was often independent of the decision about the good being considered. For example, Kevin uses DCs for all purchases he makes in person and uses CCs for any online purchases. Jacob uses his DC for most of his payments but resorts to using CCs when he needs money beyond what he has. He is

self-employed and so has to weather the ups and downs in his business. Tammy enjoyed buying small gifts. So, when she ended up buying a few items at the dollar store on impulse, she did not worry about overspending as she knew that using the DC limited her spending to what she had in her bank account. Paying now allowed her to ensure that she spent only what she had.

The informants negotiated their identities and sense of self by aligning payment type preferences with their decision styles and dispositions. While Kevin, Jacob, and Tammy paid now with DCs as they wanted to restrict spending to money they had, each of them played to their perceived competences. Kevin is a banker and so considers himself financially savvy. He expects to be smart with his money and so uses DCs to avoid paying interest on unpaid CC bills. He believes that paying interest on missed CC bills is like throwing money away. Jacob is a meticulous planner that has resulted in him being debt free for a long time. He has every expense written down in his diary. Using DCs allows him to manage payments that he has already planned. He is afraid that he might forget settling CC bills and get slapped with an unplanned payment of interest fees. Tammy is afraid of overspending and so she controls the portion of salary that goes into her current account. She uses her DC that is linked to her current account to shop without a worry as she knows she could not spend beyond what she intended. All three of these informants had very conservative financial personal identities. It was not always the case as some of these identities were learned the hard way through personal experiences. We

identify four characteristics that explain differences in respondents' preferences for payment-timing, and they are discussed next.

### **Antecedents to Choosing Payment-timing**

#### *The Extent of Rewards Salience*

The economic utility of rewards has been found to underlie preferences in choosing and using payment types (Arango et al. 2011; Ching and Hayashi 2010). Ching and Hayashi (2010) estimated that removing rewards from CCs and DCs would be so discouraging to consumers that they would shift from using CCs and DCs to using cash. Our findings indicate that while rewards played a crucial role in CC preferences for pay-later users, rewards did not motivate pay-now users as they worried about the harmful consequences of uncontrolled spending and debt.

Claire prefers to use CCs because of rewards and the need to build a credit score.

*"I decided to use a CC because then I could get rewards as well as build up credit. None of my family or close friends would be getting into CC debt. They would just be having a CC to get rewards."*

Prem considers rewards on CCs as "magic money" that appears in his account but is vigilant to avoid a large, unusual bill at the end of the month:

*"My CC rewards are not significant. It's what, \$18 or \$20, but it's better than zero. It doesn't help much every month, but after six or eight months, it's kind of nice to see a \$200 balance that you can pay down without doing anything. It's like getting magic money. I do pay with a CC for big items (to earn rewards) and pay off that*



*amount immediately. So, it doesn't come as a shock that, wait why did my bill go up by a thousand dollars this month relative to other months."*

Pay-now users such as Barbara have CCs that offer rewards. But that does not motivate her to use CCs.

*"I have two CCs that have lines of credit (for emergency use). I do get some rewards (points) on the CCs. And from what it seems like points don't accumulate that fast (and so are not a focus)."*

Chloe understands that CCs offer rewards, but still chooses to use DCs as by "using" DCs she can ensure not to get into debt and pay interest.

*"I feel with a DC I'm not going to be penalized. I mean, not for using it. A lot of CCs do have rewards. Using CCs, it's always in mind that I'm going to pay interest over the total balance."*

For Alejandro, DC use was an "economic calculation" to avoid interest on delayed payments.

*"So, I know that with CC, I will have better (payment) security and have rewards. But I cannot miss the payment and pay interest. That is the economic calculation."*

Ordinarily, pay-now users are not motivated by rewards but may use CCs for high-dollar purchases, benefiting from rewards as a small contribution [silver lining perhaps (Thaler 1999)] toward reduced costs, as exemplified by Tammy.

*“(I had) surgery for my dog that was going to cost over \$200. So, I chose the CC that gave me cash rewards.”*

While rewards motivated pay-later users, that was not the case with pay-now preferring users. Pay-now users could not justify rewards over the possibility of getting into debt when using CCs. Thus, a concern for managing money today, as well as a secure financial future (Netemeyer et al. 2018), seem to guide pay-now users. According to Netemeyer et al. (2018), these are the two dimensions that result in financial well-being. Rewards may have an objective, economic benefit for pay-later users, but the desire for financial well-being keeps pay-now users away from such inducements.

#### *The Perception of Financial Stress*

Pay-later users were attracted by the financial benefits of paying with CCs such as rewards that were discussed in the previous section. On the other hand, pay-now preferring informants avoided stress by being vigilant of CC practices as exemplified by Mary.

*“...the uncertainty (of missing a bill settlement) that’s there with CC and the anxiety that you might have, made it difficult to use CCs. (Paying with a CC) requires more forethought and planning. It’s like more effort for me.”*

Peggy chooses to pay-now so she can question every expense item and can avoid the thought of paying high interest-rates on CCs:

*“When I look at my DC transactions, it’s frustration, because I shouldn’t have spent that money, because that money’s already gone. And, when I look at my CC*

*transaction, there's more anxiety because now I have to think how I am going to pay this, and then I think about interest and all those things that kind of roll into that (with payments on CCs)."*

Jacob prefers to use DCs to avoid the stress of ever missing CC payments.

*"You've got to make sure that you make the payments (on CCs). If you don't, then there's high-interest rates involved there. So, there's a certain amount of psychological, I don't want to say stress, but you know awareness."*

Frank, who prefers to pay-now, feels safer paying with his DC as he gets an immediate payment confirmation.

*"DC has the money taken out directly (from my account). I like knowing that this is paid, this has gone through immediately. Payment with a CC takes days to go through. For some reason, I feel more comfortable knowing that the payment is done, and it is faster using DC."*

Barbara prefers to pay-now as she values the flexibility to track her expenses and to check the account balance. She avoids waiting until month-end for the CC bill.

*"It's just easier to keep track, honestly. I can log in (to my account) and quickly see what's gone through and what hasn't, and what my account balance is. I pay all of our bills, and my roommates pay me."*

Our findings examined respondent preferences for payment types and thus segregated consumers' payment decisions from the product purchase decisions.

Respondent narratives indicate that the choice for paying now was inspired by the need to

minimize the possibility of financial harm in case they did not pay-now. Thus, the preference for payment timing may assist in managing financial stress that Netemeyer et al. (2018) have linked to consumers' overall well-being.

#### *Adopting Heuristics for Money Management*

Heuristics are arbitrary rules based on experience that reduce the decision-making effort (Gigerenzer and Goldstein 1996; Gigerenzer, Todd, and Group 1999). Pay-now users apply heuristics to be in control of their spending, while for pay-later users' heuristics are simplifying mechanisms that reduce decision-making effort. Pay-now user Barbara justified the following rules: maintain savings at a "specified balance" and use them for specific expense categories.

*"There's a certain amount that my savings can never dip below. But if it goes above that, I'm okay with spending on fun things or travel. So, when that (car) goes out, and there's this \$500 bill, it's a significant amount of money that you don't want to take out of your monthly budget. So, I have my savings for that. It pays for anything that's not regular. That's not like food and clothes or housing."*

Dan used DCs only for what he considers are "small expenses."

*"My small expenses like fast food or a tank of gas, I typically use the bank card (DC). I do watch the balances on both (his and his wife's) accounts."*

When asked further about what he meant by "watching the balances," Dan clarified that DCs immediately updated his account balances and so he could make sure that he was spending according to his budget:

*“So, I can see, let’s say if my wife purchased several things this afternoon, I didn’t know what they were. I don’t have to ask her, I can go (to the account), it lists the date, the place you purchased, the amount, and it’s on the bank statement. It’ll have the pending purchases where the amount hasn’t posted to the account. So, it’ll give me a total of that dollar amount so I can look and see what my account balance is. And when these purchases hit that balance, I’ll know whether I need to transfer money or not. And have a conversation with my wife.”*

John uses cash or DCs for small purchases and CCs for bigger purchases. The segregation helps him being vigilant about fraudulent purchases on CCs:

*“When I know that it’s a small purchase, I will pay with either cash or DC. I carry maybe a \$20 bill. When I see my CC statement, I expect to see only the big items. I feel more vulnerable with my CC so that no one is making (fraudulent) purchases.”*

Trust in merchants may generate another heuristic with informants paying with DCs only at merchants they trust and using CCs otherwise. For example, Mary, who generally prefers to pay-now, uses CCs when she does not trust a merchant.

*“So, if it is a bar that I know and trust the people, then I will use DC. Something like a fraud is easier corrected on a CC than a DC. So basically, if I don’t know or trust the people at the bar or they don’t know me; if it is a new place or a different city, then I will use my CC.”*

Pay-later users may also use heuristics as spending yardsticks but as a tool to reduce decision-making effort. For example, drinks have to be below \$10 to be affordable for Prem.

*“And then this sounds strange, but paying \$11 for a drink, is very different from paying \$9. Because \$9 keeps it below \$10. So, even though I had a hundred-dollar bill, I’d rather break it and get back 91 than 89.”*

Tom and Evan use the Biblically prescribed amount as a yardstick to donate to their churches. Evan feels satisfied donating the Biblically prescribed amount.

*“I have trust in the Bible principles, and so I get excited if the money that I have will be of use to someone else. I donate tithe (10% of income) to charity as prescribed in the Bible.”*

Most pay-later users such as Priya, Hank, Claire, and Jane mentioned that they had an overall spending limit but avoided drawing itemized budgets. Pay-later users’ confidence in their ability to meet their expenses may be the reason for such thinking as is evident in Priya’s budgeting philosophy.

*“I don’t like to manage item by item how much money I have to spend. I’ve read articles about how people keep track of their budgets, and they have certain amounts of money in every pocket. For me there’s a big pocket that’s called spending money, there’s a big pocket called savings, and as long as my savings pocket is full, where I want it to be, the rest of it is all there to spend.”*

Since heuristics are based on rules that work well for the participant, they are patterned on experiences and social expectations. As a result, modifying them can be an effortful process. Pay-now user Tammy is still adjusting after a year of moving from Phoenix to New York. She not only has to adapt her spending rules because of the cost of living differences but also fine-tune her budget amounts, *“to make sure that it’s not going to pass over a certain amount (for the category and the overall spending amount) that I’ve allotted myself per month.”*

#### *Influence of Perceived Financial Ability*

Preferences to pay-now versus later may be a function of consumers’ perception of their (a) financial resources and (b) financial knowledge. We found that consumers’ perception of their financial standing did not relate to their income. Some of those with high levels of income felt financially vulnerable and vice-versa, and so we infer that financial perceptions influenced preference for payment-timing.

First, we explore how consumers’ perceptions of financial resources may influence their motivations for payment-timing preferences. While the perception of having sufficient resources guided the preference to pay-later, the perception of financial deficits resulted in preference to pay-now. Pay-later users felt confident postponing payments as they perceived no financial constraints and, therefore, no adverse consequences of postponing payment such as indebtedness.

*“I think like me, they (other consumers) use it (CCs) to build credit scores.*

*Nobody I know would be high in CC debt, because I believe you become who you*

*surround yourself with, and people in my life that I'm close to are all excellent about managing their money well.” (Claire)*

Hank prefers to pay-later as he feels he has enough money and is proficient at remaining within his spending and savings budgets.

*“I'll do my budget for known bills. And then on top of that, potential spending for that month. So usually I have an idea of how much I'm spending. And then usually mid-month, between paychecks, I'll do a review of that. Am I still comfortable with my spending and savings habits? And, if so, am I still positive within a few hundred dollars of where I want to be?”*

Pay-now users may justify using CCs for purchases they could not avoid, e.g., for emergency purposes. However, such justifications still resulted in stress for pay-now users. Peggy is reminded of debt purchasing holiday tickets on CCs.

*“I went on a trip recently to Scotland. I put my plane tickets on my CC because I didn't have the liquid assets to pay. If it were taken out of my checking account, I wouldn't be able to do other things. So, I know that I'm not paying it off immediately. For me, that's debt in my mind, and so I'm thinking more about the debt than the actual spending.”*

Thus, for Peggy, the need to use a CC (not her preferred payment form) did not produce the benefits that research has found to be associated with using CCs. Feelings of financial constraints may result in adopting DCs as they may be seen as a means to



increase self-control. Dan prefers to use DCs as that limits his spending to just the money in his account. He follows the precept that don't spend the money you don't have.

*“Based on experiences where we've gotten into trouble with CCs, most of the financial planners I've talked to say cut them up if you can't manage them. And so, I took them off the table. My thoughts are if you don't have the money in the account, don't buy it. I am not going into our retirement owing money. We are going to be debt-free and go back to living as we did on one income when our kids were little. If we didn't have it, we didn't spend it.”*

The second dimension of financial ability is the respondents' confidence in their ability to learn the complexities of using different payment types. Evan, who prefers to pay-later, feels that a CC is a temptation, and some people are unable to handle it.

*“Managing CCs is a skill that requires a lot of effort initially. I keep track of which CCs offer the best rewards and which ones offer low rates or 0% APR if I need to use the credit. I have the bill payment dates on my calendar for each CC so that I don't miss a payment and get penalized with late fees. Sometimes I have to think about which CC to pull out (to make a payment) so that I can get the maximum free time (to settle the bill).”*

Hank has shifted to paying-later after his account was hacked due to using DCs. He forced himself to learn about payment types as a result of this poor experience. Now that he is aware of the pros and cons, he prefers to pay-later.

*“This (hacking of his bank account) motivated me to switch to CCs because I realized that if they steal from the line of credit, none of my financial liabilities are being touched. So, all my checking account, savings account, mutual funds, all that money was not being directly linked to CCs. That feeling of waking up in the morning and seeing a huge amount of money taken from my finances, it’s heartbreaking. Like oh, what do I do? Whereas with CCs I felt the bank had more motivation because they were stealing the bank’s money and not mine.”*

Hank’s example reminds us that habits acquired early in life (e.g., using DCs) may inhibit consumers from exploring options and learning about the capabilities and functionalities of other payment types until they have life-altering experiences. However, individual differences in financial learning may result in preferences for payment-timing. A deficient financial ability may result in a preference for DCs that may be perceived as simpler (fewer functionalities) than CCs.

Poor CC experiences reinforced a financially conservative upbringing for Chloe, who switched to paying now. Instead of learning from her mistakes, Chloe determined that CCs were not for her.

*“In college, I signed up for a CC with Wells Fargo, and I didn’t understand variable rates as many 19-years old do not. So, I got a CC and maxed that out and had a 26% interest rate after a few years. After that, I am very leery of CCs, and I keep them open for a line of credit, but I don’t necessarily use them.”*

Pay-now users may follow family financial practices and heuristics in evaluating financial information. Pay-now users agonized over CC mistakes, ascribing them to their family's lack of knowledge, felt intimidated by the prospect of applying for a CC, felt helpless about how to improve a credit score, were threatened by the prospect of CC fees, and struggled to learn about CCs. Peggy, who prefers to pay-now, blames her family's lack of knowledge about CCs that led her to borrow in college, paying interest.

*“I think the worst part about being a family who never used CCs is that you being the only one who does it. You're on your own in terms of learning about it. I got a CC very young. And so, I didn't do some of the things I wish I should have done. I got this student rate on my CC with no interest for a year which was fantastic. Living in college, I wasn't paying attention. And so, as soon as that year was up, I got hit with a lot of interest payments.”*

Informants' beliefs in their ability to handle financial information may promote their receptivity to financial learning and enhance their confidence in making financial decisions (Netemeyer et al. 2018). The perception of financial ability may result in choosing either a DC or a CC or both, depending on other consumer motivations such as the extent of reward salience, attraction to financial benefits versus reducing financial stress, and adopting heuristics for money management. The four motivations influencing payment-timing choice just discussed are presented in Figure 1.

[Insert Figure 1 about here]

We argue that the four antecedents to the choice of payment-timing (extent of rewards salience, perception of financial stress, adopting heuristics for money management, and the influence of perceived financial ability) reflect financial preferences contingent on these consumer motivations. Interviews indicate that respondents' payment-timing perspectives may emerge from societal and family norms, values, and practices. However, the meanings they assign to payment types may be situated in their own life experiences. Preferences for payment-timing may remain the same or change over time as a result of such learning, as respondents' narratives disclosed. Payment-timing preferences may be driven by individuals' financial strategies to manage financial stress (Netemeyer et al. 2018). Such preferences may have consequences on shopping and consumption behaviors (Cotte, Ratneshwar, and Mick 2004) and contribute to consumers' overall well-being (Netemeyer et al. 2018).

### **THEORETICAL IMPLICATIONS**

The findings from this research add to our knowledge of the intrinsic motivations that guide the choice of payment types. First, this research identifies that consumers may investigate payments somewhat in isolation of purchases. Prior research has highlighted purchases as the primary experience that influences future purchases (Soman and Lam 2002). Soman and Lam (2002) indicate that the effect of payments may be an economic one that should fade over time. Our research suggests that may not be the case; for example, some consumers are willing to let go of the economic benefits of rewards, adopt heuristics to manage money, and let past payments influence their financial learning and

knowledge. As a result, preferences for payment types represent individual consumer identities (assessments such as being financially savvy, being proud planners, and avoiding impulse shopping) that they engage in for their financial well-being.

Second, the findings indicate that payment-timing is the key in the selection of payment types that align with their personalities (Cotte et al. 2004) as well as with their desires to minimize financial stress (Netemeyer et al. 2018). By choosing payment-timing, consumers regulate the stress of managing money as well as enhance their sense of financial security in the future.

Third, the model pinpoints the unique influence of payment-timing on payment type preferences that in Soman's (2003) research formed one of the components of payment transparency. Thus, preferences for payment types such as DCs versus CCs, both of which have been found to be low on transparency, can be explained by payment-timing differences.

Fourth, payment-type preferences may indicate expectations and commitment towards others, e.g., family members, and a communication of what are considered "appropriate" financial management practices (Bradford 2015). The use of CCs when the merchant is not trusted and the use of DCs to manage spending with multiple family members are examples of using payment types to spend wisely.

Fifth, our research shows that consumers may learn from their experiences and may reassign the role payment-types play for them rather than live with prior attitudes towards payment types as highlighted by Kara et al. (1996). For example, new

experiences with fraud handling by card issuers may change consumer preferences for payment-timing.

### **MANAGERIAL IMPLICATIONS**

The preferences for choosing payment types offer managers insight into consumers' concerns with their finances as they pay for the purchase. Payment-timing may be a conduit to understanding consumers' marketing transaction intentions. Consumers' profiles may indicate the importance of economic motivation in determining their payment preferences. Preferences for rewards on CCs reflects an economic rationale by the consumers, while a preference for DCs may indicate an indifference towards monetary incentives. DC-users may be thinking about the financial stress associated with making payments. Stress when making payments may have repercussions on purchase desires and satisfaction with the purchase. In such cases, a mood uplifting shopping environment that enhances purchase desirability through the store's focus on the consumers' sense of sound, light, sight, smell, and touch may augur well for pay-now users as it may counterbalance their stress when making payments. CC users, on the other hand, may be able to justify the stress of using credit for valuable possessions. The benefit focus associated with the CCs (Chatterjee and Rose 2012) may indicate a selling strategy to managers as consumers pull out CCs versus DCs to make payments. For example, someone pulling out a CC might be easier to upsell justifying the accessory as a benefit rather than a cost to the purchase being made. Alignment with the preferred decision-making process of the consumers is expected to enhance their shopping

experience and thus their satisfaction with the acquisition. A preference for paying now may indicate a perception of lower financial resources. Thus, simple payment options with low interest installment payments may be conducive to motivate pay-now users, while the brand's status may infer trusted quality for pay-later users.

Managers may be able to anticipate consumers' purchase intentions in light of payment-timing preferences given that payment information is embedded in purchase histories and online identities. Managers may selectively make offers that are in line with consumer profiles so as to motivate consumer purchases. Consumers may be motivated to process information that aligns with their attitudes and thus enable better quality decision-making. For example, consumers preferring to pay-later may be approached with offers positioned as financial gains while those preferring to pay-now may be offered financial risk minimization justifications for the purchases. Pay-now preferring consumers are more likely to respond to product discounts as such incentives may offset the perceived cost, lower purchase resistance, and enhance satisfaction. Consumer satisfaction has been related to the overall quality of life (El Hedhli, Chebat, and Sirgy 2013) and so appeals that motivate consumers to evaluate the offer information and thus enhance the quality of decisions are expected to enhance their satisfaction with the purchase.

Managers must remember that when consumers are forced to use a payment type that they do not prefer, e.g., a pay-now preferring consumer has to use a CC when they are short on liquidity, the outcome may not be a satisfying purchase. In such cases

managers must recognize that while consumers may have acquired the desired purchase, making payment might be considered a burden that could weigh down the purchase being made. A reconfirmation of the appeal that motivated them to this transaction such as the low cost of purchase for a pay-now preferring consumer may help mitigate missing their financial goal.

### **POLICY RECOMMENDATIONS**

Consumers use CCs and DCs as “plastic” versions of their money that may look similar but may have different underlying consequences for them. Thus, consumer habits, motivations, and opinions about the payment-type functionalities need to inform policy discussions. Policy implications need to be evaluated from the consumers’ viewpoint. For example, fraud may debilitate DC users as their money may be under dispute and not accessible, while fraud may not affect CC users’ liquidity. DC-users may benefit from an option of a “fraud protection” facility that may release affected funds for a flat fee similar to the “overdraft protection” facility.

There is an urgent need for financial education as the after-effects of bad CC experiences as young adults may last over a lifetime, as was evident in some informants’ narratives. Given the peer pressure and the urgency to socialize, a present-bias may dominate consumers’ purchase decisions, so there is a need for education about the financial future. The approach to financial education may be twofold with one set focusing on benefits and another on reducing losses as was revealed about the motivations guiding the CC versus DC preferring consumers. Perhaps financial education



for high-school students might include accessibility to DCs to help learn the value of financial control.

We argue that individual choices for payment-timing are influenced by the consumer motivations as depicted in Figure 1. Policymakers may use these findings to create disclosure norms when consumers apply for DCs and CCs. In addition, integrating the application for payment types with some coverage of one's financial future might be required. Since DCs are likely to be preferred by those desiring to control their finances, CC applications might be required to mention issues of financial control in a readable format. Consumers already receive transaction updates on their phones and adding an option to get account balance information with the transaction details may help DC-users manage their finances more effectively. Such measures may reduce the harm consumers encounter as they navigate the difficulties of managing their finances.

As already discussed, research indicates that cash withdrawals reduce significantly with increased circulation of DCs (Yilmazkuday and Yazgan 2009) and formal savings rates go up when DCs replace cash (Bachas et al. 2017). DCs enhanced formal savings better than other financial interventions such as no-fee accounts, financial incentives, and financial education. Thus, payment-type preferences merit policy interventions.

## **RECOMMENDATIONS AND LIMITATIONS**

The payment-timing model presents several avenues for future research. We suggest that future research delineate payment decisions from purchase decisions in order

to investigate their influence. Each motivation (the extent of rewards salience, the perception of financial stress, adopting heuristics for money management, and consumers' perception of their financial ability) offers opportunities for empirical research.

It is essential to acknowledge that this study focused on transactions, primarily because of the greater feasibility offered by such a perspective. The snowball sample likely resulted in a lack of diversity, such as a bias toward salaried participants, and participants with income above the average U.S. level. A more representative sample may be helpful in future research. Attention to informants that possessed both DCs and CCs was necessary to investigate the choice process for payment types. Consumers have streams of payment and consumption, different payment contexts, social and cultural influences, and experiences over time that also merit consideration in future research.

In conclusion, payment-timing differences explain payment type preferences, demonstrating scholars' findings of hedonic efficiency considerations (Prelec and Loewenstein 1998). While rational consumers are expected to use CCs as discussed earlier, a vast majority of consumers in the U.S. have chosen to make DCs their primary medium of payment. Adoption of DCs may indicate a concern for psychological well-being and may align with intrinsic motivations to manage payment obligations. DCs may allow many consumers to address their current financial situations, resulting in their overall well-being. Payment-timing preferences may reflect financial self-efficacy as consumers may perceive that they can safeguard their financial future. Choice of CCs and

DCs may result in consumers' confidence in their financial management, leading to positive future outcomes for individuals (Brüggen et al. 2017). Consumers are influenced in their purchases by product stimuli controlled by marketers and the social context that exists (Howard and Sheth 1969). However, consumers control the choice of payment-timing and, thus, their financial and psychological well-being while achieving the desired purchase outcomes.

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**TABLE 1***Participant Profile\**

<b>Given Name</b>	<b>Age</b>	<b>Employment</b>	<b>Income</b>	<b>Profession</b>	<b>M/F</b>	<b>Race</b>	<b>Edu</b>	<b>Location</b>	<b># DCs</b>	<b># CCs</b>	<b>User</b>
Alejandro	30-35	Sal	50-75K	IT Professional	M	Cuban	Graduate	Lincoln	1	1	DC
Barbara	20-25	Sal	< 25K	Intern	F	White	Graduate	Lincoln	1	1	DC
Chloe	25-30	Unemp	75-100K	Project Consulting	F	White	Graduate	NY	2	2	DC
Claire	22-25	Sal	< 25K	Intern	F	White	Graduate	Lincoln	1	1	CC
Dan	60-65	Sal	50-75K	Physical Therapist	M	White	Graduate	Lincoln	2	1	DC
Emily	60-65	Hrly Wages	25-50K	Contract Worker	F	White	High School	Lincoln	0	3	CC
Evan	30-35	Sal	50-75	Pastor	M	White	Graduate	Lincoln	2	3	CC
Frank	30-35	Sal	75-100K	IT Professional	M	White	Graduate	CL	1	7	DC
Hank	25-30	Sal	75-100K	Government	M	White	Graduate	DC	1	1	CC
Jacob	60-65	Self-emp	25-50K	Contract Worker	M	White	Some college	Lincoln	3	3	DC
Jane	30-35	Sal	25-50K	Staff	F	White	Graduate	Lincoln	1	7	CC
John	30-35	Asst	25K	Graduate Student	M	White	PG	Lincoln	2	1	DC
Kevin	45-50	Sal	100-150K	Banker	M	White	Graduate	Lincoln	3	5	DC
Lori	25-30	Sal	25-50K	Advisor	F	White	Graduate	Lincoln	1	1	DC
Mary	30-35	Sal	100-150K	Professor	F	German	Ph.D.	Lincoln	1	2	DC
Mason	30-35	Sal	50-75K	Pastor	M	White	Graduate	Lincoln	2	2	CC
Nicole	20-25	Hrly Wages	<20K	Performing Arts	F	White	Graduate	Lincoln	2	0	DC
Peggy	25-28	Sal	Bet jobs	Project Manager	F	White	Graduate	Lincoln	2	3	DC
Phillip	35-40	Sal	100-150K	IT Director	M	White	Graduate	Lincoln	1	1	DC
Prem	25-30	Sal	75-100K	IT Professional	M	Indian	Graduate	Dallas	1	1	CC
Priya	20-25	Sal	50K	IT Professional	F	Indian	Graduate	Lincoln	2	2	CC
Renee	35-40	Sal	75-100K	Manager	F	White	Graduate	Lincoln	4	2	CC
Sylvester	60+	Sal	200K+	Professor	M	White	Ph.D.	Lincoln	1	1	DC
Tammy	25-30	Sal	75-100K	Executive	F	White	Graduate	SFO	2	2	DC
Tom	25-30	Hrly Wages	25-50K	Trainer	M	Thai	Graduate	Lincoln	3	3	CC

\*Based on information shared by the participants; White=White Caucasians



**FIGURE 1***Antecedents to the Payment-timing Choice*

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Alignment with Consumers' Financial Strategies

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**Consumer Motivations**

- Extent of Rewards Salience
- Perception of Financial Stress
- Adopting Heuristics for Money Management
- Influence of Perceived Financial Ability

**Payment-timing:**

- Now
  - Later
-